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Cc: Maria_Cantwell@cantwell.senate.gov; Ivan.Kaplan@mail.house.gov; Jay.Inslee@mail.house.gov; senator_murray@murray.senate.gov

Subject: VCs and SBIR participation

The original purpose of the SBIR program was to fill a gap between high risk technical innovation, and technology whose technical risks and marketability could attract venture capital and development bank funds.

The concept of using these funds in any way by Venture Capital firms is repugnant to the purpose of the enabling legislation, and should not be permitted. The various Agencies who are "taxed" to support the SBIR Awards have worked to divert portions of these funds to their traditional performers at academia and at federal laboratories through various forced partnerships. At the Phase II level, some Agencies encourage SBIR Awardees to hand off technologies to larger companies who are traditional federal suppliers of goods. This essentially "cherry picks" innovation by the larger firms, rather than growing smaller businesses. Getting the VCs fingers in the pot is just more of the same dilution of intent to support small business innovators directly.

At a 2.5% R&D tax, the SBIR program has now become significant pot of money. However, it is wrong to divert money intended for the encouragement and growth of small business into the Venture Capital community, and such a step would be a serious perversion of the intent of Congress.

There are several problems with the SBIR program that need to be addressed, but letting politically well-connected interests in the Venture Capital community would be a damaging change to the SBIR program. It should not be attempted by the SBA, and there is nothing in the underpinning law that would serve as a foundation for such a policy.

Should the SBA attempt to take such action, I would encourage the oversight Committees in the House and Senate to act promptly to reverse this, and make it plain that turning SBIR funds over to Venture Capitalist controlled companies is not acceptable under present law. If there are well-connected interests who wish to change the law to enable such dilution of funding away from small business, I would hope any thoughtful and informed member of Congress would oppose such a move.

I am copying some members of Congress with these views. Broader questions and issues surrounding the SBIR program were provided by our company to the House Science Committee in November, 2003. A WORD 97 file of that testimony is attached.

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